REPORT TO MERTON CLINICAL COMMISSIONING GROUP
GOVERNING BODY

Date of Meeting: 25th September 2015

Agenda No: 9.1

<table>
<thead>
<tr>
<th>Title of Document:</th>
<th>Purpose of Report:</th>
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<tbody>
<tr>
<td>The Annual External Audit Letter for Merton CCG</td>
<td>For note only</td>
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<table>
<thead>
<tr>
<th>Report Author:</th>
<th>Lead Director:</th>
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<tbody>
<tr>
<td>Grant Thornton - Auditors</td>
<td>Cynthia Cardozo – Chief Finance Officer</td>
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Executive Summary:
The Annual Audit Letter summarises the key findings arising from the external audit work carried out at the CCG for the year ended 31 March 2014. It includes:

- auditing the 2013/14 accounts (section two)
- assessing the CCG’s arrangements for securing economy, efficiency and effectiveness in its use of resources (section three)
- the result of these was an “unqualified opinion”

The Letter is intended to communicate key messages to the CCG and external stakeholders, including members of the public. The detailed findings of the audit work was presented to the CCG’s Audit and Governance Committee at its meeting of the 28th May 2014.

Key sections for particular note (paragraph/page), areas of concern etc:
Whole document

Recommendation(s):
Governing Body is asked to note the Annual External Audit Letter.

Committees which have previously discussed/agreed the report:
Audit and Governance Committee 28th May 2014.

How has the Patient voice been considered in development of this paper: NA

Other Implications: NA

Equality Assessment: NA

Information Privacy Issues: NA

Communication Plan: (including any implications under the Freedom of Information Act or NHS Constitution) The Annual Audit Letter will be included on the CCG’s website as part of the Governing Body papers.
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Appendices
A. Reports issued and fees
Section 1: Executive summary

01. Executive summary
02. Audit of the accounts
03. Value for Money
Executive summary

Purpose of this letter
Our Annual Audit Letter ('Letter') summarises the key findings arising from the work that we have carried out at Merton Clinical Commissioning Group ('the CCG') for the year ended 31 March 2014.

• auditing the 2013/14 accounts (section two)
• assessing the CCG's arrangements for securing economy, efficiency and effectiveness in its use of resources (section three)

The Letter is intended to communicate key messages to the CCG and external stakeholders, including members of the public.

We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 28 May 2014.

Responsibilities of the external auditors and the CCG
This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and of Audited Bodies, Local NHS bodies, April 2014 issued by the Audit Commission (Statement-of-responsibilities-NHS-April-2014.pdf).

The CCG is responsible for preparing and publishing its financial statements accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with our Audit Plan and is conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions
The audit conclusions which we have provided in relation to 2013/14 are as follows:

Financial statements opinion - We provided an unqualified opinion on the financial statements which give a true and fair view of the CCG's financial position as at 31 March 2014 and of net expenditure recorded by the CCG for the year.

Regularity opinion - As well as an opinion on the financial statements, we are required to give a regularity opinion on whether expenditure has been incurred 'as intended by Parliament'. Failure to meet statutory financial targets automatically results in a qualified regularity opinion.

We are pleased to report that, based on our review of the CCG's expenditure we gave an unqualified regularity opinion.

Value for money (VfM) – We concluded that there were no issues to report arising from our work assessing the CCGs arrangements for securing economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts (WGA)
A group assurance certificate, issued to the National Audit Office, in respect of Whole of Government Accounts which did not identify any issues for the group auditor to consider.

Key areas for the CCGs attention
2013/14 was the first year of operation of the CCG and the CCG achieved its statutory financial performance duties including achieving a £2 million surplus against its revenue resource limit.

Our audit of the CCG's draft financial statements did not identify any adjustments affecting the CCG's comprehensive net expenditure position. The key messages arising from our audit of the CCG's financial statements were:
• a number of amendments were agreed to disclosures within the financial statements and annual report. The amendments were to enhance the transparency of the disclosures; and
• there is scope to improve the quality of the draft financial statements by addressing template issues prior to submission.

Our value for money conclusion work considered the results of:
• our review of the annual governance statement;
• our review of the outputs from the assurance meetings held with NHS England
• our review of your arrangements against the key themes.
Our review identified that you had adequate arrangements in place for leadership, commissioning, financial planning and management, data quality and external relationships. The key message arising from our audit is the QIPP plan remains challenging and the CCG needs to continue to monitor both the delivery of the QIPP plan and the robustness of the underlying arrangements.

Acknowledgments
This Letter has been agreed with the Chief Financial Officer.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the CCG's staff.

Grant Thornton UK LLP
July 2014
Section 2: Audit of the accounts

01. Executive summary
02. Audit of the accounts
03. Value for Money
Audit of the accounts

Audit opinion
The key findings of our audit of the accounts are summarised below:

Preparation of the accounts
The CCG presented us with draft accounts in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork.

Issues arising from the audit of the accounts
We did not identify any adjustments affecting the CCG's comprehensive net expenditure position.

The key messages arising from our audit of the CCG’s financial statements were:
- a number of amendments were agreed to disclosures within the financial statements and annual report. The amendments were to enhance the transparency of the disclosures; and
- there is scope to improve the quality of the draft financial statements by addressing the template issues prior to submission.

Conclusion
Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the CCG). We presented our report to the Audit Committee on 28 May 2014 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the CCG's 2013/14 accounts on 6 June 2014, meeting the deadline set by the Department of Health (DH). Our opinion confirms that the accounts give a true and fair view of the CCG's financial affairs and of the income and expenditure recorded by the CCG.
Financial performance 2013/14

The CCG’s Performance against its financial targets is set out in the table below:

<table>
<thead>
<tr>
<th>Target £’000</th>
<th>Actual £’000</th>
<th>Met?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure not to exceed income</td>
<td>207,244</td>
<td>204,938</td>
</tr>
<tr>
<td>Capital resource use does not exceed the amount specified in direction</td>
<td>258</td>
<td>32</td>
</tr>
<tr>
<td>Revenue resource use does not exceed the amount specified in direction</td>
<td>206,986</td>
<td>204,906</td>
</tr>
<tr>
<td>Capital resource use on specified matters(s) does not exceed the amount specified in Directions</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Revenue resource use on specified matters(s) does not exceed the amount specified in Directions</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Revenue administration resource use does not exceed the amount specified in Directions</td>
<td>4,960</td>
<td>4,704</td>
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The CCG achieved its statutory duties under the Health and Social Care Act 2012 which included achieving a surplus of £2 million against its revenue resource limit.

The Quality, Innovation, Productivity and Prevention (QIPP) plan for 2013/14 was to deliver savings of £7.5 million. The CCG achieved 85% of its QIPP target.

Looking forward

The CCG has had regular assurance meetings with NHS England during the year. Additional funding has been allocated by NHS England in both 2014/15 and 2015/16 with further additional funding indicated for the subsequent three financial years. The CCG is planning to achieve a £2 million surplus in both 2014/15 and 2015/16. The CCG has identified a QIPP plan to deliver £6.6 million savings in 2014/15 with a further £5.8 million savings in 2015/16. There are identified schemes to deliver all of the planned QIPP savings in 2014/15.

The QIPP plan remains challenging and the CCG needs to continue to monitor both the delivery of the QIPP plan and the robustness of the underlying arrangements.
Value for Money

Scope of Value for Money work
We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Code to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

In recognition that CCGs are new organisations, the Audit Commission has not specified reporting criteria for the VfM conclusion at CCGs for 2013/14. Our VfM conclusion is based on:
• reviewing the CCG's annual governance statement
• reviewing the results of the work of relevant regulatory bodies or inspectorates (including NHS England reviews), to consider whether there is any impact on our responsibilities
• reviewing the CCG's arrangements for the Better Care Fund.

Our work focused on the following key themes identified in the Audit Commission’s guidance:
• leadership
• commissioning
• financial planning and management
• data quality
• external relationships.

For 2014/15 the approach will be based on criteria specified by the Audit Commission relating to financial resilience and prioritising resources, and will require a positive conclusion on the arrangements in place.

Key findings
We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission, we have considered the results of the following:
• our review of the annual governance statement;
• our review of the outputs from the assurance meetings held with NHS England
• our review of your arrangements against the key themes.

Our review identified that you had adequate arrangements in place for leadership, commissioning, financial planning and management, data quality and external relationships.

As part of our review we noted that the CCG was part of the Better Services Better Value strategic change programme which ended following the withdrawal of another CCG. NHS Merton CCG subsequently developed a strategic change programme with the other local CCGs which is known as the South West London Commissioning Collaborative. The CCG needs to continue to make progress with the new strategic change programme during 2014/15 and to ensure that the links between the strategic commissioning plan and the strategic financial plan are clear. We reviewed the arrangements in place to develop the Better Care Fund plan and have no matters which we wish to raise to your attention.

Overall VfM conclusion
On the basis of our work, and having regard to the guidance published by the Audit Commission, we have concluded that there are no matters which we are required to report.
Appendices
Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

<table>
<thead>
<tr>
<th>Fees</th>
<th>Planned £</th>
<th>Actual fees £</th>
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<tbody>
<tr>
<td>Statutory audit</td>
<td>70,000</td>
<td>70,000</td>
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<tr>
<td>Total fees</td>
<td>70,000</td>
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<table>
<thead>
<tr>
<th>Fees for other services</th>
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<tbody>
<tr>
<td>Service</td>
</tr>
<tr>
<td>None</td>
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Reports issued

<table>
<thead>
<tr>
<th>Report</th>
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<tbody>
<tr>
<td>Audit Plan</td>
<td>March 2014</td>
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<tr>
<td>Audit Findings Report</td>
<td>May 2014</td>
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<tr>
<td>Annual Audit Letter</td>
<td>July 2014</td>
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